
Subject Index

- Accounting Standards Board, United Kingdom, 202
- Accounting systems: country-specific practices, 202–8; differences in reporting, 183–93, 201–2, 221–23; German one-book, 185–88, 190; MNC tax-related shifts of profits, 68–69; one-book and two-book, 181–83, 188–90, 221–22; U.S. two-book, 183–85, 188–89
- ACE. *See* Adjusted current earnings (AMT calculation)
- Adjusted current earnings (AMT calculation), 156–57
- Alternative minimum taxable income (AMTI), 155–57
- Alternative minimum tax (AMT): calculation of, 155–56; effect on domestic and foreign investment, 158–61; foreign-source income from firms subject to, 4; influence on incentives, 153–54, 158–61, 279, 310; status of multinationals under rules for, 167–77; tax incentives of firms paying, 279, 310
- Australia: depreciation rules, 213; inventory valuation, 217–18; tax benefits of local borrowing, 114–15; two-book accounting system, 203
- Authoritative principle (accounting), Germany, 186
- Belgium: depreciation rules, 213; inventory valuation, 218; one-book accounting system, 206
- Burke-Hartke bill (1960s), 16
- Canada: depreciation rules, 213–14; generally accepted accounting principles, 202; inventory valuation, 218; tax benefits of local borrowing, 114–15; two-book accounting system, 202
- Canadian Institute of Chartered Accountants, 202
- Capital: effect of FDI on stock of, 45, 58–60; flow related to FDI, 50–52, 57, 63–65; sources of U.S. foreign affiliate, 47–50, 57–60; U.S. regulations limiting outflows (1960s), 16; U.S. voluntary program (1965–67), 16. *See also* Cost of capital; Foreign direct investment (FDI); Investment, Portfolio investment
- Capital market segmentation, 51, 57
- Commercial Code, Japan, 205
- Companies Acts, United Kingdom, 202
- Cost of capital: defined, 102; differences among countries of, 95–96; estimates for foreign investment, 99–107; financing through equity transfer, 117t, 118t; income shifting adjusted, 122; measurement of, 106–7
- Data sources: alternative concepts of FDI, 46–47; analysis of effect of taxation on FDI, 124, 133–39; analysis of influences on multinational firm R&D activity, 234–35; analysis of 1986 introduction of interest allocation rules, 288–90; analysis of MNC income repatriation pattern, 167–68; analysis of tax parameters of accounting systems, 211–12; assessment of

- Data Sources (*continued*)
 accounting systems, 193–94, 208–11;
 FDI, 52–53; model estimates of dividend
 repatriation, 262–64
- Deductions: under AMT, 153; for depreciation
 (AMT calculation), 156, 158–59; for net
 operating losses (AMT calculation),
 155–58
- Denmark: accounting system, 206–7; deprecia-
 tion rules, 214; inventory valuation, 218
- Depreciation: accounting rules in countries
 outside United States, 213–17; AMT
 treatment, 156, 178
- Discount rate: in financing domestic and fore-
 ign investment, 105–6; in tax treatment
 of repatriated dividends, 102–6
- Dividend imputation: effect on cost of capital
 in home and host countries, 110–12;
 in estimating cost of capital, 101–2,
 105–6
- Dividends, repatriated: discount rate influ-
 enced by tax treatment, 102–6; empirical
 model of, 260–70; selective choice by
 U.S. multinationals, 280; tax cost depen-
 dent on foreign tax credit, 163–64,
 173–77; tax price of, 257–60; U.S. tax
 credits for foreign-earned, 258. *See also*
 Hartman's theory of dividend repatriation
 tax; Tax price (of dividend remittance)
- Dividend taxation: tax capitalization view,
 253, 255
- Employment: impact of FDI on, 44–45; by
 parent companies and foreign affiliates,
 20–31, 34, 36–39; in R&D of U.S. parent
 companies and foreign affiliates, 28, 34,
 38–39
- Euler equation model for investment: to assess
 firms' FDI decisions, 129–33, 139–41; in
 assessment of accounting systems, 188–
 93, 209–10; estimates of one- and two-
 book accounting system information,
 193–201
- European Community (EC) accounting stan-
 dards, 206, 207
- Exchange rates, 150–51
- Exports: effects of overseas production on do-
 mestic, 16–20, 34–36; foreign production
 as substitute for home-country, 16–20,
 34–36; from internationalized produc-
 tion, 11–12, 14, 34–36; U.S. share of man-
 ufactured, 12–14
- Financial Accounting Standards Board
 (FASB), 183
- Firms, foreign-owned: effect on affiliates of
 royalty tax rates on R&D in United
 States, 243–46; internationalization of
 production, 20–31, 33; investment in
 United States, 8–9; MNC export markets,
 14–15; R&D performed in United States,
 227–29
- Firms, U.S.: AMT effect on domestic, 154;
 competition for foreign and domestic in-
 vestment funds, 29–30; cost of capital for
 domestic and foreign investment, 107–8;
 cost of capital for domestic and foreign-
 operated, 96; costs associated with in-
 come shifting, 70; effect of AMT on,
 154; factors influencing transfer pricing,
 75–76; foreign debt financing, 112–15; in-
 formation in financial reporting, 181–88;
 internationalization of production, 20–31,
 33; R&D performed by, 227–29; U.S. tax-
 ation of foreign branches and subsidiar-
 ies, 230. *See also* Foreign affiliates, U.S.
 firms; Multinational corporations
 (MNCs)
- First-in, first-out (FIFO) inventory system,
 184
- Foreign affiliates, U.S. firms: concepts of FDI
 in nonbank, 47–49, 58–60; employment,
 production, and sales of manufacturing,
 9–10, 20–31; employment in relation to
 parent companies, 20–31, 36–39; esti-
 mates of effect of royalty taxes on R&D,
 239–43; role in technology transfer, 227;
 royalty payments and tax rates, 232, 235–
 36, 238–39; sources of capital financing,
 58–60, 106–7; substitution of production
 for home-country production, 16–20, 34;
 tax price of dividend remittance, 257–
 60
- Foreign direct investment (FDI): alternative
 measures of U.S. outbound, 46–49; dis-
 placement effect of outbound, 49–52; ef-
 fect on capital stock, 45; effect on em-
 ployment, 44–45; effects of taxation on,
 128–33; empirical literature on determi-
 nants of, 124–28; estimates of effect on
 domestic investment, 52–57, 64–65; gov-
 ernment policy influence on, 44; inbound
 to United States, 10–11; motivation for,
 43–44; sources of capital, 47–50, 57;
 U.S. regulations limiting (1960s), 16;

- U.S. regulations related to, 16. *See also* Euler equation model for investment; *q* model
- Foreign-owned affiliates. *See* Firms, foreign-owned
- France: depreciation rules, 214; inventory valuation, 218; one-book accounting system, 206; tax benefits of local borrowing, 114–15
- Generally accepted accounting principles (GAAP): country-specific, 202–8; German tax computation, 186; in United States, 183–85
- Germany: cost of capital for foreign firms, 109; depreciation rules, 214–15; inventory valuation, 218; tax benefits of local borrowing, 114–15
- Government role: in enforcement of transfer pricing rules, 82–84, 93–94; influence on pattern of FDI, 44; in limits to transfer pricing, 75–76. *See also* Tax policy; Tax Reform Act (1986)
- Handelsgesetzbuch (HGB), Germany, 185, 187–88
- Hartman's theory of dividend repatriation tax, 125–26, 253, 255–57, 260, 268, 271, 272–73
- IAS. *See* International Accounting Standards (IAS)
- Imparity principle (accounting), Germany, 186
- Incentives: AMT influence on firm, 4; under AMT rules for investment, 158–61; for income repatriation, 161–67; influence of repatriation tax on investment, 257–62, 265–71; to repatriate profits from foreign subsidiaries, 253–54; for U.S. firms to delay dividend repatriation, 230; U.S. tax policy to lower transfer pricing, 82
- Income: in derivation of alternative minimum taxable income, 156; taxation of international investment, 97–98; U.S. residence basis for taxation, 97, 229, 279; U.S. allocation of interest expense between foreign and domestic, 281–86. *See also* Dividends, repatriated; Labor income; Royalty income
- Income, alternative minimum taxable (AMTI), 155–57
- Income, foreign-source: AMT status of firms receiving, 168; exchange risks, 115; from firms subject to AMT, 4; home- and host-country tax, 97–107; incentives to defer repatriation, 230, 280; repatriation incentives, 161–77; taxable under U.S. tax rules, 230; U.S. allocation of interest expense between domestic and, 281–86; U.S. rules for taxation of, 229–31; U.S. tax rules pertaining to, 279–81. *See also* Alternative minimum tax (AMT); Royalty income; Tax credit, foreign; Tax rates
- Income, repatriated: pooling of MNC, 98; U.S. taxation of, 229–30
- Income repatriation: effects of U.S. tax credit and deferral rules, 255–57
- Income shifting: cross-border from high- to low-tax countries, 68–69; domestic and host-country tax policy with cross-border and domestic, 69–82, 92–93. *See also* Profit shifting
- Income tax, corporate: in developed countries, 67–68, 88–89
- Information: in one- and two-book accounting systems, 181–88, 199, 222–23
- Interest expense: analysis of changes in U.S. tax rules for, 288–306; home-country tax credit rules for foreign financing, 112–15; interaction with U.S. foreign income rules, 281–86; U.S. tax rules related to deductibility, 82, 277–78
- International Accounting Standards (IAS), 206, 207
- Inventory valuation (countries outside United States), 217–19
- Investment: accounting regime signals for, 183–93; accounting system assessment using Euler equation model, 188–93; competition for foreign and domestic funds, 29–30; cost-of-capital effect, 95–96, 108–10; exchange rate conversion effect, 150–51; incentives under AMT and regular tax rules for, 158–61; repatriation tax influence on, 257; tax rules related to international, 97–98
- Investment, domestic: estimates of FDI effects on, 52–57, 64–65; measurement of firm's cost of capital for, 107–8
- Investment, foreign: competition for funds, 108–10; discount rates in financing, 104–6; estimated cost of capital for, 99–107; local and foreign borrowing for,

- Investment, foreign (*continued*)
 113–15; measurement of firm's cost of capital for, 106–7; U.S., 8–9
- Ireland: depreciation rules, 215; inventory valuation, 218; two-book accounting system, 202–3
- Italy: accounting system, 207; depreciation rules, 215; inventory valuation, 218; tax benefits of local borrowing, 114–15
- Japan: cost of capital for foreign firms, 109–11; depreciation rules, 215; generally accepted accounting principles, 205–6; inventory valuation, 218; mixed one- and two-book accounting system, 204–6; share of manufactured exports, 14; tax benefits of local borrowing, 114–115
- Labor demand, 20–31
- Labor income: direct taxation effect in host-country, 79–80; tax policy with cross-border shifting, 73–78; tax policy with shifting of domestic, 70–72; tax policy with shifting of host-country, 72–73
- Last-in, first-out (LIFO) inventory system, 184–85, 203
- Manufacturing industry, 11, 20–31
- Multinational corporations (MNCs): AMT effect, 153–54; calculation of AMT, 155–58; cost-of-capital effect on competitiveness, 95–96, 108–10; cross-border profit shifting, 76–78; domestic and overseas investment decisions, 49–57, 63–65; effect of AMT on, 154; effect of change in interest allocation tax rules, 278; effect of taxation on investment, 44; effect of taxation on R&D behavior, 231–46; employment, production, and sales of U.S. manufacturing, 9–10; export markets of foreign, 14–15; export markets of U.S., 12–13; investment and profits in low-tax countries, 68–69; investment tax credit, 98; pooling of repatriated income, 98; role in technology transfer, 227–29. *See also* Firms, foreign-owned; Firms, U.S.; Foreign affiliates, U.S. firms
- Netherlands: depreciation rules, 215–16; inventory valuation, 218; taxation of foreign-source income, 97; tax benefits of local borrowing, 115; two-book accounting system, 203–4
- Net operating losses (NOL), deductions, 155–58
- New Zealand: depreciation rules, 216; inventory valuation, 218; two-book accounting system, 203
- NOL. *See* Net operating losses (NOL)
- Norway: accounting system, 206–7; depreciation rules, 216; inventory valuation, 219
- Portfolio investment, 51–52, 57
- PPE. *See* Property, plant, and equipment (PPE)
- Production: internationalization of U.S., 20–31, 33; internationalized U.S. and foreign firm, 8–12, 20–31, 33; labor demand in parent companies and foreign affiliates, 20–31
- Production, foreign: effect on domestic labor demand of, 20–31; internationalization, 20–31, 33
- Profits: firm valuation of subsidiaries', 233n16; taxation in cost-of-capital estimates, 99–102; U.S. taxation of foreign-earned, 229–30
- Profit shifting: MNC cross-border, 76–78; tax system incentives for, 75. *See also* Income shifting
- Property, plant, and equipment (PPE), 21, 290, 298–99, 311
- q* model: accounting system estimates compared with Euler equation estimates, 198–99, 201; in assessment of firms' FDI decisions, 128–29, 131; tax effect on FDI under assumptions of, 141–42
- Research and development (R&D): activities of multinational corporations, 227–29; estimates of effect of royalty taxes on, 239–43; imported technology as complement to local, 248–51; imported technology as substitute for local, 227–46; influence of tax systems on, 226; U.S. tax rules for expenses of, 82
- Reverse authoritative principle (accounting), Germany, 186
- Rhythm method (of tax deferral), 256
- Royalties: tax rates, 226, 239–46; tax rates

- and payments by U.S. foreign affiliates, 235–36, 238–39
- Royalty income: as foreign-source income, 281; of MNC from foreign affiliates, 230–33; tax rates, 226, 239–46
- Saving retention coefficient, 51
- Securities Exchange Law (1948), Japan, 204–5
- Services industry, 11, 20–31
- Spain: accounting system, 207; depreciation rules, 216–17; inventory valuation, 219
- Sweden: accounting system, 206–7; depreciation rules, 217; inventory valuation, 219; share of manufactured exports, 14–15; tax benefits of local borrowing, 114–15
- Switzerland: accounting system, 207–8; depreciation rules, 217; inventory valuation, 219; tax benefits of local borrowing, 114–15
- Taxation: costs with international investment, 108–9; liability with one-book or two-book accounting systems, 181–83; modeling effects on FDI, 128–33; residence basis for income, 97–98, 229, 279; studies of effects on FDI, 124–28
- Tax capitalization (of dividend taxation), 255
- Tax credit, foreign: AMT allowable, 157–58; components of U.S. rules for, 258, 279–81; for MNCs, 97–98; qualification for, 229n6; under regular and AMT rules, 157–58, 161–67; tax cost for firms with excess, 162–77, 257; as tax shelter, 154
- Tax credit, U.S.: cross-crediting, 259; in estimating cost of capital, 101–2; excess credit and excess limitation, 256–59; rules for repatriated income, 255–57; on taxes paid on foreign income, 229–31. *See also* Dividends, repatriated
- Tax havens, 79–80
- Tax loss carryforwards (TLCF), 290, 298–99
- Tax policy: AMT effect on MNC, 153–54; discount rate impact, 105; domestic policy effect on income shifting, 70–72; host-country policy effect on income shifting, 72–73; implications for dividend withholding tax rates, 271; influence on R&D, 226; to lower transfer pricing incentives, 82–83; optimal home-country with income shifting, 80–82, 92–93; optimal host-country with income shifting, 78–80, 92–93; related to dividend payout behavior, 254; related to international investment, 97–98; transfer pricing enforcement in United States, 93–94; for U.S. firms' foreign investment decisions, 142–43; in United States with outgoing profit shifting, 80–82
- Tax price (of dividend remittance): defined, 259; derivation, 259–60; distribution of, 264t, 274–75; endogenous and exogenous variation of, 270–71, 275; measurement of, 257–59; separation of permanent and temporary components, 257–62, 265–71, 273–76
- Tax rates: on all AMT, 153–54; comparison of firm's regular and AMT rates, 158–61; effect on royalty payments by U.S. firm foreign affiliates, 235–36, 238–39; estimated in Euler equation of investment analysis, 194–96, 212
- Tax rates, royalty: effect on R&D of foreign-owned affiliates in United States, 243–46; estimates of effect on R&D, 226, 239–43
- Tax Reform Act (1986): allocation rules for interest expense, 277–81, 283–86; AMT, 153; analysis of impact of changes in interest allocation rules, 288–306; deductibility of R&D expenses by MNCs under, 231; foreign tax credit calculation under, 256n5; income pooling rules, 116; rules for deductibility of interest expense, 277–78; rules for R&D expenses, 231
- Technologies: complementarity of technology imports and local R&D, 248–51; rents or royalties paid by U.S. firm foreign affiliates, 232–43; substitutability of technology imports and local R&D, 235–46. *See also* Research and development (R&D)
- Technology transfer: to avoid tax, 232; role of MNCs in cross-border, 227–29
- Timing: for income repatriation, 154; in repatriation of profits from foreign subsidiaries, 253–54. *See also* Dividends, repatriated; Incentives; Income, foreign-source TLCF. *See* Tax loss carryforwards (TLCF)
- Transfer pricing: incentives to reduce, 75–76; MNC cross-border income shifting, 68–69; response of U.S. states, 87; to shift profits across borders, 76–78; tax policy inducing, 80–82; tax system incen-

Transfer pricing (*continued*)

tives for, 75; U.S. enforcement, 93–94;
U.S. tax policy to reduce incentives for,
82. *See also* Profit shifting

United Kingdom: cost of capital for foreign
firms, 110, 112; depreciation rules, 217;
differences with United States in account-
ing practices, 202–3; generally accepted
accounting principles, 202; inventory val-
uation, 219; tax benefits of local bor-
rowing, 114–15; two-book accounting
system, 202

Voluntary Program of Capital Restraints
(1965–67), United States, 16

Wage tax. *See* Labor income